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SUBJECT: MADAGASCAR: STATE OF APPAREL COMPANIES AFTER AGOA TERMINATION

¶1. (SBU) SUMMARY: Since Madagascar's suspension from AGOA on December 23, 2009, newspapers report daily demonstrations of workers protesting lay-offs from garment factories. These demonstrations have been small, mainly peaceful, and not targeted against the U.S. Although only a few companies have officially closed, most focused on the U.S. market have already reduced their staff. Trade unions estimate that at least 40,000 people out of around 100,000 in the textile sector will lose their jobs by the end of April. Mauritian businesses, approximately 15 established in Madagascar and many more that sub-contract with local factories, will be heavily impacted by the closures. In a misguided attempt to force closing companies to meet all their obligations to laid-off employees, the HAT apparently is blocking the departure from Madagascar of expat businessmen in the textile arena. END SUMMARY

Company Closures since AGOA Suspension

¶2. (SBU) The closure of Prime View (2,000 workers) in the beginning of January 2010 was the first sign of disarray among the 43 companies exporting under the African Growth and Opportunity Act (AGOA). Companies such as Kuk Rim, BM, and Kwok Hing have informed the Customs office that they will transfer their equipment to Egypt and Lesotho before the end of February.

¶3. (SBU) The following companies have opted to lay off all workers for six months because they could not reach a deal with their U.S. buyers to cover new customs duties: Cosmos Knit (3,012 workers), Radha Fashion (2,000), BL Garment (800), Diamond Empire (727), BM (500), Kuk Rim (700), K3 Apparel (300). This decision to lay off rather than close could reflect a hope that AGOA will be reinstated to allow re-opening or that new buyers will be found in Europe in the interim, or alternatively, could be a move to get out of paying severance packages to workers that will be due upon closure.

¶4. (SBU) The Mauritian Ambassador told the Ambassador Feb 8 that Cosmos, the Mauritian firm noted above, was in the process of deciding the ultimate fate of its factory. One of the factory managers (mistaken for her husband, the head manager) attempted to fly to Mauritius to consult the company's owner and was blocked at the airport from leaving Madagascar. After investigation, the Mauritian Embassy discovered that the Commission of Security and Defense of the HAT led by hardliner Alain Ramaroson had established a no-fly list of more than fifty expats working in the textile industry and instructed airport officials to block the departure of these individuals. When the Cosmos manager was convoked by Commission Director Rakotomazafy Feb 5, the Mauritian Ambassador appeared with him in the HAT office and demanded a halt to arbitrary travel bans. The director explained that the government is concerned that Cosmos' workers were not paid in January and may not receive the benefits to which they are due. Cosmos' manager also complained that customs officers were hindering factory operations and that their inputs were being blocked at the port. Rakotomazafy promised to help resolve these issues. The company will go into

receivership. The HAT's intentions with respect to the no-departure list remain unclear at this time.

¶5. (SBU) The following companies have implemented partial layoffs:

- Mklen and L5, a Jordache company that was the largest exporter under AGOA in 2009, has significantly reduced its workforce. Before June 2009, the company employed 4,500 workers and sub-contracted work to 1,000 workers at Radha Fashion. In June, they fired around 1,200 workers when they closed one factory. In the beginning of February 2010, they fired another 1,000 workers, reducing the workforce to around 2,300. They also cancelled their contract with Radha Fashion. They plan to cease operations by the end of March and will fire remaining workers at that time. They will keep their assets here until June and decide what to do with them then.

The labor law does not require companies to pay workers if laid off ("chomage technique"), but does require severance payment upon termination. Unlike other companies, Mklen has acted proactively to reach a settlement with workers. It has paid accumulated holiday leave, all salaries due, and severance pay based on base salary and number of years worked. All the workers have signed this settlement, except around 110 who have threatened to go to court, and Mklen has been able to continue its operations with the remaining workers without hassle or strikes or protests. According to the factory manager, however, due to political manipulation of laid-off workers by the Ministry of Population (led by Nadine Ramaroson, niece of HAT hardliner Alain Ramaroson), he hired 32 armed police to guard the factory, but subsequently reduced that number to seven.

- Mazava with 1,200 workers laid off 400 workers in January. In December 2009, Mazava opened a new firm in Dar Es Salam, Tanzania,

to where it is shifting production to address Madagascar's AGOA suspension.

- Vieo Madagascar with 462 workers will lay off 238 workers in March.

- JH Madagascar having 1,425 workers will lay off 300 workers by the end of February.

- Grove, a Hong Kong subsidiary, had to reduce its workers by two-thirds (1,200 now instead of 4,000 before the crisis). Thanks to an arrangement with its U.S. buyer, Grove has orders until April.

¶6. (SBU) The following companies have only exported to the U.S. once or twice in 2009: Logistics (January), Casero (June), BG Confection (June), Antan Production (August, October), Fatexma (April, July), Floreal (March, June), MIW (June, July), and Radha Fashions (February, March). According to Malagasy Customs, these firms are sub-contractors or export partially to Europe.

Strategies to Address the AGOA Suspension

¶7. (SBU) A few companies have adopted strategies to keep their American market:

- Griffy S.A. which has been working in Madagascar for almost twenty years and employs 2,800 people is the only AGOA garment factory that continues to operate with 100 percent of its staff, according to Griffy managers. They have orders through March, but are negotiating now with buyers to continue production beyond that date. Following the suspension of AGOA, as a producer of woven goods, Griffy is subject to U.S. custom duties of around 17 percent. For existing orders, they are paying the duty themselves, but for future placements, they are negotiating to split the difference with buyers, such as Jones of New York and Gloria Vanderbilt. The company would like to stay in Madagascar for the long-term, but may be unable if AGOA is not renewed. In addition to the increased tariffs, longer transit times and buyers' concerns about security in Madagascar are having a negative impact on their business. Because Malagasy imports have dropped, vessels are not docking as frequently as before, and the main shipping company Maersk is only able to provide a schedule for three weeks out, rather than three months as was the previous practice. This uncertainty, plus an additional ten

days on average, of transit time could deter buyers, who operate on tight timelines.

- Cottonline, a main supplier of Gloria Vanderbilt, employs 1,900 people. In January, the company had to lay off 500 temporary workers and is now negotiating with its customer to find a mutual compromise. According to its manager, Cottonline may agree to pay a portion of the U.S. customs duties. In addition, Cottonline is negotiating with the suppliers of its accessories and fabrics to get competitive prices. Cottonline exports 55 percent of its production to Europe and the remaining 35 percent to the U.S.

- Candytex, a Mauritian company that is the main supplier of Berne Apparel, employed 760 workers before the AGOA suspension. The company laid off 209 people who have been on strike since Feb 1 and are blocking the others from going to work. The company has not paid any severance benefits, but offered to establish a bank guarantee that would cover such benefits should it eventually close. The manager had to call the armed forces to protect the staff and the factory. The manager said they have orders until the end of March, and Candytex has to pay part of the U.S. duty to keep its customers. The company hopes to keep its operations going by finding a European buyer. According to the Mauritian Ambassador, HAT Defense Commission Director Rakotomazafy, Alain Ramaroson's subordinate, was able to calm the workers, but "someone" clearly wants the firm to fail and is encouraging the laid off workers to block operations.

- JNJ, a Hong Kong firm, is also splitting the U.S. customs duty with its customer. JNJ has orders through April, but to be competitive, it has to reduce its profit margin by 20 percent to cover the duty. Before the crisis JNJ had 1,200 workers, but now has only 300.

- Madagascar Sales (1,200 workers) and Madagascar Fashion Knits (1,127 workers) have maintained all their workers until now because they still have orders from Europe. However, Mr. Chow, general manager of the two companies, is now negotiating with U.S. buyers to convince them to support the duties on a mutual basis.

- Nova Knit's case is a bit different from other firms. The firm is producing only cashmere, a high-end product for which the

international market was disturbed by the world economic crisis. The firm had to lay off 2,000 workers (out of 3,000) in September 2009 and halted its exports to the U.S. With its remaining 1,000 workers, Nova Knits is now only exporting to Europe. Around 60 percent of garment factories export to Europe, and others are shifting their focus to this more promising market, where Malagasy garments enter duty free under the interim Economic Partnership Agreement, following the termination of AGOA.

Workers Lobby GOM for AGOA Reinstatement

¶8. (SBU) On January 22, the Workers Committee for Maintaining AGOA (KMM) organized a gathering in the capital. Only around one hundred workers attended the gathering because of its political objectives. During its General Assembly on Feb 3, the Export Processing Zone (EPZ) Association announced that it was still possible to save AGOA if a political solution could be found before March. EPZ unions, workers, and employers are urging the political leaders to find a solution to the crisis in order to once again benefit from AGOA provisions.

GOM Fails to Deliver

¶9. (SBU) After the AGOA suspension, the de facto government met with the owners of apparel firms exporting under AGOA to discuss solutions or measures to mitigate the impact. Companies sent propositions to the ministry of industry, such as the GOM reimbursing the companies for a portion of the U.S. customs duties, but to date, the cash-strapped GOM has not provided relief. A contact in the garment sector told Emboff that the companies would need approximately USD 44 million per year from the GOM to make up for the customs duties in the U.S., a sum that the minister of economy confirmed would be impossible for the GOM to provide. The minister of economy also announced that the GOM may devalue the local currency to boost export competitiveness, but the central bank

asserts that such a policy is not being applied. However, the ariary has depreciated against the dollar by nine percent since the beginning of 2010. The GOM has also proposed granting land to the unemployed. At least 5,000 people registered for this program and are waiting for its implementation.

Comment

¶10. (SBU) Most workers have accepted their unfortunate fate quietly. The rhetoric of the few disgruntled workers who have taken action and press reports has for the most part not been directed towards the U.S., but has been focused on employers and the GOM. Discontent may build, however, in March and April as remaining workers are fired and factories close, particularly if severance benefits are not paid. End comment.

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